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October 21, 1999

*To the Citizens of the Commonwealth of Massachusetts,
Governor Argeo Paul Cellucci, and Honorable Members of the General
Court*

I am pleased to report that as of June 30, 1999, the financial condition of the Commonwealth remains sound. Nearly \$1.4 billion, or approximately 7% of budgeted revenues is in the Commonwealth's Stabilization Fund, sometimes called the "rainy day" fund. With the fund nearly at the maximum, the Commonwealth is preparing for that inevitable rainy day.

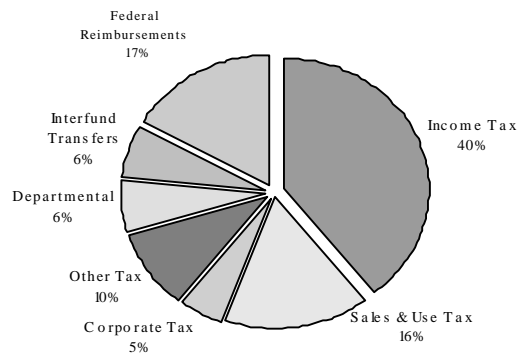
The fund balance in the budgeted funds at the end of the year reflects a prudent fiscal strategy. Year end transfers of budget surpluses were made to the capital projects funds to make strategic investments to manage the Commonwealth's capital budget; \$408.9 million was set aside to defease high interest debt that otherwise could not be refunded, \$118.6 million was set aside for new infrastructure projects that were not previously authorized, and \$110.4 million was transferred to capital projects to finance projects that would normally be funded with general obligation debt. After these transfers, \$2.1 billion, 14.8% of annual tax revenues remained in the Commonwealth's budgeted funds, including the \$1.4 billion in the Stabilization Fund.

In accordance with Massachusetts General Laws, the Office of the Comptroller transmits the Statutory Basis Financial Report, ("SBFR,") on or before October 31st. The SBFR report for fiscal year ended June 30, 1999 ("FY99") herein is audited by Deloitte & Touche, LLP, Independent Certified Public Accountants and represents the conclusion of financial activity and the closing of the Commonwealth's books on the Statutory basis of accounting for the fiscal year. This audit is conducted in conjunction with the State Auditor's Office which provides knowledge, expertise, experience, and resources to close and audit the year.

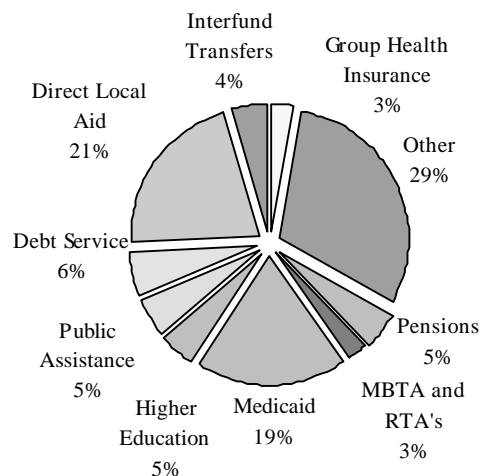
This report includes the budgeted funds, non-budgeted special revenue funds, capital project funds, fiduciary funds and the non-appropriated funds of higher education. The financial operations of these funds are maintained in the Massachusetts Management Accounting and Reporting System, ("MMARS.") The statewide accounting system is operated by the Commonwealth and contains detailed information summarized in this report.

The SBFR is intended to satisfy the requirements of state finance law, to present fairly the results of FY99 activity in the Commonwealth's funds. The report contains computations required by state finance law including the certification of the Stabilization Fund and Tax Reduction Fund. The statutory basis of accounting, defined in Massachusetts law is typically used to budget and control fiscal operations. The statutory basis of accounting is not in accordance with generally accepted accounting principles, ("GAAP,") as defined for governments by the Government Accounting Standards Board. I will report the Commonwealth's financial position on a GAAP basis in December, in our Comprehensive Annual Financial Report, ("CAFR.")

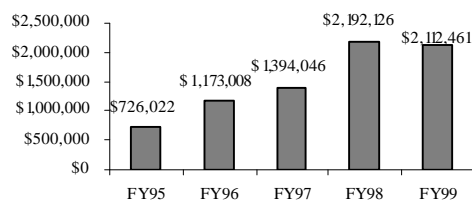
Budgeted Revenues And Other Sources



Budgeted Expenditures And Other Uses



Budgeted Funds - Fund Balance (Amounts in thousands)



Budgeted Funds

Uses of budgeted funds exceeded sources of budgeted funds, resulting in an “operating loss” of \$79.7 million. This is the result of \$637.9 million in transfers of year end surplus to fund future capital projects (\$229.0 million) and to defease high interest bond (\$408.9 million) that otherwise could not be defeased prior to maturity. More importantly, any gain or loss has to be viewed in a trend. Generally accepted standards indicate that a structural balance is achieved when revenues exceed expenditures over a period of multiple years. The \$229.0 million transferred for capital outlay allows the Commonwealth to sell less in bonds in the future to pay for capital costs. The funds for defeasance allow the Commonwealth to pay *less* in the future for capital costs already bonded. When viewed in an overall fiscal context, this is sound policy.

In FY99, budgeted revenues and other financing sources including transfers were essentially flat (increase of 1.8%) reflecting the implementation of a number of tax cuts that reduced tax revenues in excess of \$900 million. From a multi-year perspective, the proportion of revenue sources did not materially change from FY98 to FY99. Budgeted expenditures and other financing uses including transfers were up 6.5% from FY98 to FY99. The Budgeted Funds – Operations table on page 3 displays the FY99 budgeted funds, summarized and compared to FY98. Financial statements for each of the 62 individual budgeted funds are included in the financial section of this report.

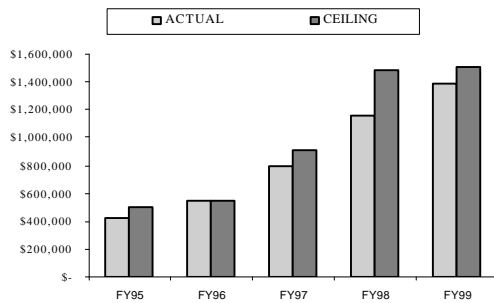
In conducting the budget process, the Commonwealth excludes those “interfund” transactions that, by their nature, have no impact on the combined fund balance of the budgeted funds. The table isolates this “interfund” activity from the budgeted sources and uses to align forecasts prepared during the budget process, to actuals in this report. For example, the table isolates the assessments on municipalities collected by the Commonwealth and paid to the MBTA and regional transit authorities. A detailed list of these interfund transfers is included in footnote 3.

The graph of Budgeted Funds – Fund Balance, shows the combined fund balance in the budgeted funds for the past five years. This “bottom line” perspective demonstrates the accumulation of resources attributable to balanced budgets over this period. The FY99 ending balance of \$2.1 billion is composed of four items. The aforementioned Stabilization Fund balance of \$1.4 billion is the largest component. The other components include \$386.9 million undesignated surplus available for appropriation in fiscal 2000, \$330.2 million reserved and designated for continuing appropriations and debt service, and the remaining \$6.8 million reserved for future tax reductions, subject to appropriation.

Budgeted Funds - Operations
(Amounts in thousands)

	1998	1999
Beginning fund balances:		
Reserved and designated.....	\$ 225,151	\$ 286,348
Reserved for Tax Reduction	91,764	367,663
Reserved for Stabilization Fund.....	799,300	1,159,588
Undesignated.....	277,831	378,527
Total.....	1,394,046	2,192,126
Revenues and other sources:		
Taxes.....	14,026,256	14,291,463
Federal reimbursements.....	3,361,181	3,442,929
Departmental and other revenues.....	1,286,452	1,297,849
Interfund transfers from non-budgeted funds and other uses.....	1,125,950	1,132,863
Budgeted revenues and other sources.....	19,799,839	20,165,104
Mass transit assessments.....	155,610	159,916
Intragovernmental Service Fund revenues.....	84,958	96,860
Interfund transfers among budgeted funds and other sources.....	1,364,217	1,145,111
Total revenues and other sources.....	21,404,624	21,566,991
Expenditures and other uses:		
Programs and services.....	16,238,763	17,341,111
Debt service.....	1,213,363	1,173,815
Pension.....	1,069,771	990,211
Interfund transfers to non-budgeted funds and other uses.....	479,862	739,632
Budgeted expenditures and other uses.....	19,001,759	20,244,769
Payments of mass transit assessments.....	155,610	159,916
Intragovernmental Service Fund expenditures.....	84,958	96,860
Interfund transfers among budgeted funds and other uses.....	1,364,217	1,145,111
Total expenditures and other uses.....	20,606,544	21,646,656
Excess (deficiency) of revenues and other sources over expenditures and other uses.....	798,080	(79,665)
Ending fund balances:		
Reserved and designated.....	286,348	330,227
Reserved for Tax Reduction	367,663	6,818
Reserved for Stabilization Fund.....	1,159,588	1,388,523
Undesignated.....	378,527	386,893
Total.....	\$ 2,192,126	\$ 2,112,461

Stabilization Fund Balance
(Amounts in Thousands)

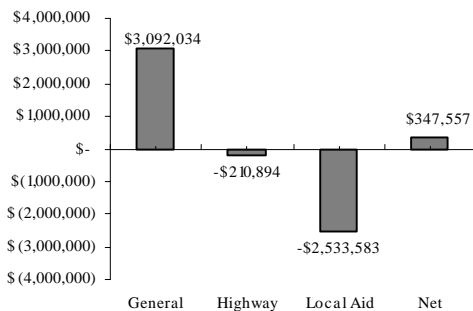


I cannot emphasize enough the importance of the balance in the Stabilization Fund and its direct correlation to the positive financial condition in the Commonwealth. State finance law, as amended during FY98, increased the maximum balance that may accumulate in the fund to a level of 7.5% of budgeted revenues and other sources. The law then directs that any amount in excess of this “cap” to be transferred to the Tax Reduction Fund. This “cap” for FY99 was \$1.5 billion.

The graph, Stabilization Fund Balance portrays this “cap” and the balance of the fund, over a five year period.

Despite the Commonwealth’s positive financial condition, a few cautionary notes are merited. There are certain problems with the definitions in the state finance law, enacted in 1986 and continued with slight modifications to the present. A balanced budget, the “Consolidated Net Surplus,” is defined as the combined undesignated component of the General, Local Aid, and Highway Funds. According to this restricted definition, fiscal balance *was* achieved in FY99 in the amount of \$347.6 million. However this definition excludes certain components of fund balance, such as reserves for continuing appropriations and the *entire balances* of other budgeted funds. This definition is idiosyncratic, having the potential to be misleading and confusing. The Commonwealth should adopt a more straightforward definition of fiscal balance.

"Consolidated Net Surplus"
Prior to Transfers
(Amounts in Thousands)



The calculation of deposits to the Stabilization Fund is also problematic. Under current law, the “Consolidated Net Surplus” in the General, Highway and Local Aid Funds is measured in comparison to 0.5% of state tax revenues. Any amount in excess of 0.5% of taxes is computed for transfer to Capital Project funds and for transfer to the Stabilization Fund. For the Stabilization Fund transfer, 60% is taken from the General Fund and 40% from the Local Aid Fund. Other funds in surplus, such as the Special Revenue Funds, *do not contribute* to the transfer. This is counterintuitive that the Local Aid Fund, which is in deficit, contributes to the transfer, thus becoming *more deficient*. State finance law should be amended to rationalize the contributions to the Stabilization Fund.

Further complicating this issue is the existence of a large number of “minor” budgeted funds. Over the past several years, dozens of new “minor” funds have been created. These funds split off revenues and expenditures previously accounted for as part of a major fund, such as the General Fund. The funds are currently excluded from the definition of fiscal balance and are likewise excluded from the contributions to the Stabilization Fund. A number of these funds have structural imbalances leading to chronic deficits. This trend to fragment the budget into such special interest funds should be addressed with a plan to either consolidate to a more reasonable number of funds or to include these funds in the definition of fiscal balance.

A final cautionary note pertains to the disposition of the accumulated surplus. Maintaining a prudent portion of the surplus in the strategic reserve, the Stabilization Fund, is paramount. The Legislature and the Governor now face the challenge to frame fiscal policy for the remainder of this surplus. There are numerous choices, each of which has long-term implications on how the Commonwealth maintains its positive financial position. These choices include one-time authorizations such as tax reduction, financing of capital projects, or continued annual appropriation for increased spending on programs. Whatever choices are made, it is important to maintain the long-term structural balance. Accumulated balances should not be committed entirely to purposes with ongoing spending requirements.

Non-Budgeted Funds

The Non-Budgeted Funds represent operations, in which the government has imposed its sovereign authority, and has excluded these operations from the annual budget process. During FY99, the Commonwealth maintained 26 of these funds, including funds for the Lottery, Federal Grants, Debt Defeasance, Grant Anticipation, Sewer Rate Relief, the Medical Security Trust Fund and Uncompensated Care Fund. These funds are commonly referred to as special or dedicated revenue funds whose specific revenues are matched to related expenditures.

The table on page 6, Non-Budgeted Funds – Operations, includes a summary of the FY99 non-budgeted funds. Financial statements for each of the individual funds are included in the financial section of this report. Several of these funds merit mentioning. At June 30, 1999, the Federal Grants Fund has a positive fund balance, but there is a deficiency in cash within the fund. This situation results in the Commonwealth drawing funds from the federal government a few days after applicable cash disbursements to assure an “interest neutral” timing of the federal – state cash exchange. These requirements were established by the Cash Management Improvement Act of 1990. Within the Lottery Funds, gross revenues continued to increase this fiscal year. Net income also increased, resulting in an increase of distributions to cities and towns of \$20.2 million.

Non-Budgeted Funds - Operations
(Amounts in thousands)

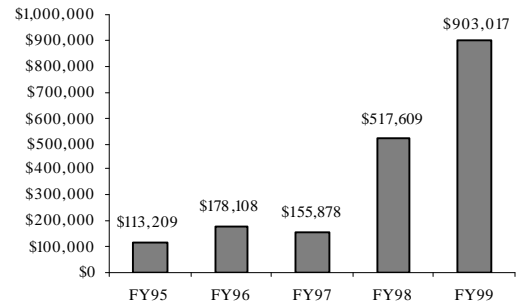
	1998	1999
Beginning fund balance.....	\$ 155,878	\$ 517,609
Revenues and other sources:		
Taxes.....	11,631	12,734
Assessments.....	261,650	269,555
Federal grants and reimbursements.....	1,482,709	2,017,000
Departmental and miscellaneous.....	3,955,294	4,107,227
Transfers and other sources.....	1,003,098	999,116
Total revenues and sources.....	6,714,382	7,405,632
Expenditures and other uses:		
Programs and services.....	4,675,102	4,837,590
Debt service.....	1,227	38,428
Transfers and other uses.....	1,676,322	2,154,206
Total expenditures and uses.....	6,352,651	7,020,224
Excess of revenues and sources over expenditures and uses.....	361,731	385,408
Ending fund balance.....	\$ 517,609	\$ 903,017

Federal Grant Anticipation Notes, ("GANS") activity related to the Central Artery / Tunnel project continued this year. During FY98, the Legislature authorized the issuance of up to \$1.5 billion in GANS to finance the current cash needs of the project. These GANS mature from between 7 to 17 years from the date of issuance and are redeemed by pledged future federal reimbursements. The GANS are not considered general obligation debt of the Commonwealth. Activity related to issuance of GANS and the accumulation of pledged funds and the payment of debt service is accounted for in the Grant Anticipation Note Trust Fund. The \$244.7 million balance in the fund represents \$49.1 million held for payment of interest on the GANS and \$195.6 million of proceeds held by the Treasurer to be released in the coming months as expenditures are incurred.

The universal health care funds, established in 1988, including the Uncompensated Care, Labor Shortage and Medical Security Trust Funds have annual revenue in excess of \$1.0 billion. They also have a combined fund balance of over \$223.6 million. Finally, the Sewer Rate Relief Fund ended the fiscal year with a fund balance of \$14.7 million.

The graph Non-Budgeted Funds – Fund Balance shows the combined fund balance in Non-Budgeted Funds for the past five years. In each year, the entire balance is designated for the specific purpose of the fund. The large increase in fund balance was the result of the statutory transfer of \$408.9 million to the Debt De-feasance Fund from the budgeted funds. These funds were used in September of 1999 to defease high interest General Obligation Debt. Four dormant funds have been abolished over the past two years, including the JFK Library, the Park Fund, the Freight Rail Fund and Passenger Rail Fund. These dormant funds had accumulated balances, but no activity. More consolidation and elimination is needed. For example, the Government Land Bank Fund has a chronic structural fund deficit. The FY99 deficit balance of \$35.1 million represents an unbudgeted drain on the General Fund. The Government Land Bank Fund should be abolished and the deficit transferred into the General Fund. A periodic reexamination of all non-budgeted funds represents sound financial practice.

Non-Budgeted Funds - Fund Balance
(Amounts in thousands)



Capital Projects Funds

The purpose of these funds is to construct or acquire capital, assets for governmental use. The Governor may propose capital outlay budgets, which, upon enactment by a two-thirds vote of the Legislature and approval by the Governor, become capital outlay acts. Numerous acts may be combined for reporting in an individual Capital Projects Fund, but each act is accounted separately within the Capital Project Fund. These accounts, record authorizations for expenditures in itemized capital appropriation accounts and equivalent authorizations to issue bonds or notes in anticipation of federal reimbursements.

Certain funds or **accounts** may also be authorized by law to receive other revenues. A situation such as this occurs upon transfers of surplus from the Budgeted Funds. At the conclusion of FY98, \$189.2 million from the year's surplus was transferred to the Capital Investment Trust Fund. An additional \$118.6 million was transferred in FY99. This fund supports capital projects without the need to issue bonds. In addition, the amount of \$110.4 million was transferred from the Budgeted Funds as part of the surplus disposition calculation to provide financing to Capital Projects Funds.

The structure of these funds is that each capital outlay authorization is in balance, creating authorization for inflows, which may be from sales of bonds, federal reimbursements or other revenues and authorization for expenditures. Imbalances due to timing differences develop when the outflow (expenditure) precedes the inflow of funds from the sale of bonds or federal reimbursements. Because of federal tax arbitrage rules, the sale of bonds is

discouraged in anticipation of expenditures, contributing to this imbalance. As a result, these funds report not only temporary fund deficits, but cash deficits as well.

A significant portion of the Capital Projects activity relates to the Central Artery / Tunnel project. Pursuant to statute and agreement with the Massachusetts Turnpike Authority, (the “MTA,”) and the Massachusetts Port Authority (“MassPort”) these entities have committed to significant on going contributions to the Commonwealth as part of the financing for this project. The tables to the right show the payment received for the past four fiscal years and future anticipated payments. These funds are in addition to funds from the Commonwealth and federal funds for the project.

Capital Projects Funds - Operations
(Amounts in thousands)

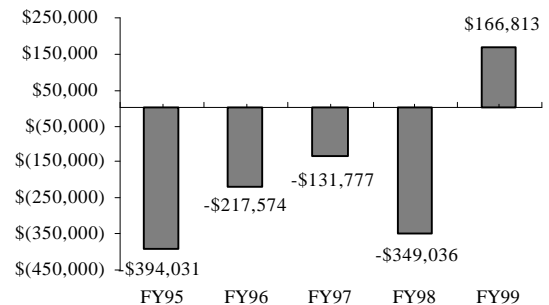
	1998	1999
Beginning fund deficits.....	\$ (131,777)	\$ (349,036)
Revenues and other sources:		
Federal grants and reimbursements.....	785,241	6,354
Departmental and miscellaneous.....	832	11,805
Payment from Authorities.....	112,515	1,082,234
General obligation financing.....	766,953	1,014,806
Special obligation financing.....	100,059	-
Proceeds of refunding bonds.....	861,793	498,792
Transfers from budgetary surplus.....	111,571	110,414
Transfer for Capital Projects Funds.....	696,650	985,030
Transfer for Federal Reimbursements.....	-	577,975
Transfers and other sources.....	550,672	685,182
Total revenues and other sources.....	3,986,286	4,972,592
Expenditures and other uses:		
Acquisition of assets.....	2,663,419	2,848,330
Payments to refunded bond escrow.....	861,793	498,792
Transfers and other uses.....	678,333	1,109,621
Total expenditures and other uses.....	4,203,545	4,456,743
Excess (deficiency) of revenues and other sources over expenditures and uses.....	(217,259)	515,849
Ending fund balance (deficit).....	\$ (349,036)	\$ 166,813

The Capital Projects Funds – Operations. includes the FY99 Capital Projects Funds, summarized and compared to FY98. Financial statements for each of the individual funds are included in the financial section of this report. The graph Capital Projects Funds – Fund Balance (deficits) shows the combined fund balance in Capital Projects Funds for the past five years.

The Commonwealth has a practice of pooling cash from all governmental funds, so the short-term cash deficits in the Capital Projects Funds create a drain on the Commonwealth's overall cash flow. The five-year graph shows the effect of elapsed time between capital expenditures and the sale of related debt. In FY99 the combined balance in the Capital Projects Funds was positive as a result of the budgeted surpluses set aside to fund future capital project. The Commonwealth could have issued additional, authorized bonds in the amount of \$294.7 million. Had such action been taken, individual fund deficits would have been reduced and cash balances would have increased by that amount.

The Administration has implemented a coordinated fiscal strategy for the management of Capital Projects Funds. This strategy includes a five-year capital budget linked to debt management and cash management. The focus of this strategy is to manage capital spending and outstanding debt, to levels the Administration considers appropriate for the Commonwealth. An important part of the strategy is to control capital spending within an annual administrative "cap." As additional capital outlays have been enacted and significant projects such as the Central Artery / Tunnel Project have been authorized, it becomes more challenging to restrain spending to such limits is increasing. Strategies to manage this situation, such as alternative financing for capital projects as exemplified by the MTA and Massport's participation in the Central Artery / Tunnel Project and the judicious use of operating surpluses, should continue.

**Capital Projects Funds -
Fund Balance Deficit
(Amounts in thousands)**



**Estimate and Actual Payments
from the Authorities
(Amounts in thousands)**

Fiscal Year	MTA	MassPort
Actual		
1996	\$ 100,000	\$ -
1997	-	-
1998	100,000	12,100
1999	1,055,000	31,000
Total	<u>\$ 1,255,000</u>	<u>\$ 43,100</u>
Estimated		
2000	100,000	52,200
2001	-	-
2002	-	-
2003	-	105,000
2004	-	50,000
2005	-	50,000
2006	-	-
Total	<u>\$ 100,000</u>	<u>\$ 257,200</u>
Total	<u>\$ 1,355,000</u>	<u>\$ 300,300</u>

Fiduciary Funds (Excluding Agency Funds)

The fiduciary funds record the Commonwealth's responsibility for assets it controls on behalf of other parties. Examples of such funds are the Unemployment Compensation and Pension Trust Funds. The following table, which excludes assets, held on a purely custodial capacity in so-called Agency Funds, summarizes the FY99 activity of the Fiduciary Funds. Over 92% of this Fiduciary Fund activity is related to the Commonwealth's Pension Fund detailed in fund statements found in this report.

On October 26, 1998, the Commonwealth updated its pension valuation and that valuation is the basis for the current funding schedule. Details of this valuation are outlined in footnote 10.

On April 28, 1999, a pension valuation report prepared by independent actuarial consultants to the Pension Reserves Investment Management ("PRIM") Board was released. Using the same data and assumptions employed by the Public Employee Retirement Administration Commission ("PERAC") in its October, 1998 valuation report, the independent report finds the unfunded actuarial liability to be \$7.8 billion rather than \$5.8 billion. The new study did not re-evaluate the earlier findings with respect to cost-of-living increases granted for local systems prior to July, 1997. Neither PERAC nor the independent consultants to the PRIM Board have yet determined the source of the differences. PERAC expects to work with actuarial firms to determine the source of the differences and to conduct additional validation tests on its new actuarial software.

Fiduciary Fund - Operations (Amounts in thousands)

	1998	1999
Beginning fund balance.....	\$ 20,888,042	\$ 25,123,216
Revenues and other sources:		
Taxes.....	1,092,698	883,503
Federal reimbursements.....	28,930	29,335
Departmental and other revenues.....	1,773,290	1,776,578
Interfund transfers and other sources.....	81,875	9,295
Investment earnings.....	3,435,381	2,904,495
Total revenues and sources.....	6,412,174	5,603,206
Expenditures and other uses:		
Expenditures.....	2,094,295	2,268,725
Interfund transfers.....	82,705	70,250
Total expenditures and uses.....	2,177,000	2,338,975
Excess of revenues and sources over expenditures and uses....	4,235,174	3,264,231
Ending fund balance.....	\$ 25,123,216	\$ 28,387,447

Non-Appropriated Funds of Higher Education

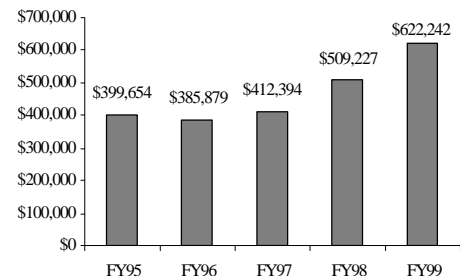
The SBFR includes the financial operations of the non-appropriated funds of the 25 Institutions of Higher Education in the Statistical Section of the report. Over the past few years, significant efforts have been taken by our office and the institutions to improve the accuracy and timeliness of this Higher Education segment of the financial report. Each Institution of Higher Education is authorized and directed in its enabling statute to collect retain and expend certain fees, rents, sales, donations, federal financial participation and other types of revenue through campus based systems. These financial resources are integral parts of the total financial activity of each campus. They also represent resources in addition to amounts made available from Commonwealth appropriations.

Non-Appropriated Funds Of Higher Education - Operations (Amounts in thousands)

	1998	1999
Beginning fund balance.....	\$ 412,394	\$ 509,227
Revenues and other sources:		
Federal Grants and reimbursements.....	220,672	200,149
Departmental and miscellaneous.....	980,267	866,700
Transfers and other sources.....	327,839	383,842
Total revenues and other sources.....	1,528,778	1,450,691
Expenditures and other uses:		
Programs and services.....	1,174,447	973,214
Transfers and other uses.....	257,498	364,462
Total expenditures and uses.....	1,431,945	1,337,676
Excess (deficiency) of revenues and other sources over expenditures and other uses.	96,833	113,015
Ending fund balance.....	\$ 509,227	\$ 622,242

The Non-Appropriated Funds for Higher Education – Operations includes the FY99 funds, summarized and compared to FY98. Financial statements for each of the individual funds are included in the statistical section of this report. The graph Non-Appropriated Funds for Higher Education – Fund Balance shows the combined fund balance for the past five years. The combined balance represents \$500.9 million for the University of Massachusetts, \$69.1 million for the State College system and \$52.1 million for the Community Colleges. These balances are designated for specific purposes, such as restrictions on endowments or other specialized purposes specified by the funding contributions.

Non-Appropriated Funds of Higher Education - Fund Balance (Amounts in Thousands)



Other Observations

In February of 1999, the Attorney General investigated an alleged embezzlement scheme in the Office of the State Treasurer between 1992 and 1999. On February 22, 1999, the State Treasurer, the State Auditor and the Comptroller convened a task force to make recommendations to the State Treasurer, with respect to checking accounts then managed with manually printed checks at local printers in the State Treasurer's Office. The task force issued recommendations on March 31, 1999, designed to minimize or eliminate the potential for errors, loss or theft. These recommendations have been implemented by the State Treasurer.

The alleged theft of funds at the Treasury reminds us of the need for constant vigilance against attacks on Commonwealth systems and controls. It is important to note that these alleged violations of law occurred in accounts outside the Commonwealth's centralized systems. The Commonwealth's centralized systems include numerous checks and controls designed to deter just such an attack. When these thefts were first identified the Treasurer took immediate actions to curtail activity in these accounts. The Treasurer continues to work with the Office of the State Auditor and this office to transfer activity to the Commonwealth's MMARS systems where appropriate and to institute stronger controls in accounts that remain in stand alone systems.

Conclusions And Recommendations

Building upon the observations in this letter, a detailed review of these financial statements suggests the need for action to further improve and strengthen state finance law and fiscal practice.

The Commonwealth must constantly monitor and update its systems and controls. To this end the Office of the Comptroller has begun a multi-pronged effort to improve controls throughout the Commonwealth. This effort must continue.

The Commonwealth should adopt a more straightforward definition of fiscal balance including all of the budgeted funds. The existence of numerous budgeted funds tends to fragment the budget process and introduces unwarranted complexities into the policy debate.

***Funds with significant deficits
(Amounts in thousands)***

	1998	1999	% increase
Local Aid.....	\$(1,939,756)	\$(2,581,361)	33%
Toxic Use Reduction	(1,850)	(4,608)	149%
Environmental Permitting and Compliance			
Assurance	(21,700)	(26,947)	24%
Environmental Law			
Enforcement	(1,311)	(1,872)	43%
Marine Fisheries	(2,739)	(3,814)	39%
Second Century	(3,367)	(4,124)	22%
Victim and Witness			
Assistance	(3,894)	(5,653)	45%
Intercity Bus Capital			
Assistance	(6,388)	(7,084)	11%
Government Land Bank ..	(34,496)	(35,097)	2%

The Commonwealth should eliminate funds that have chronic deficits. The table identifies nine funds with significant deficits that continued to grow during FY99 and where no plan exists to bring them into balance. The structure of these funds should be changed to balance revenues with expenses or the funds should be eliminated and their activity consolidated into the General Fund.

The management of spending to the administratively capped debt limit should continue. The Commonwealth has committed to an extensive capital projects agenda and great discipline will be needed to assure spending on these projects is matched with financing from bonds, federal reimbursement, transfer of budgetary surplus and financial participation from component units. Assuring proper balance between outflows and inflows, and limiting the segment funded by bonds to the administratively imposed limit, will be a major challenge.

The Commonwealth should continue to emphasize optimization of both tax and non-tax revenues. This state-wide campaign has generated nearly \$180 million in revenues since fiscal 1996. The revenue optimization strategy should continue.

The Commonwealth must continue its investment in information technology as a source of solutions to its business problems. Significant opportunities exist to improve the productivity of the administration of government, and technology projects will yield a substantial and favorable return on investment. This issue became increasingly evident with the resolution of the "Y2K" issue that has faced the Commonwealth. Through a two-year effort established by the Executive Office for Administration and Finance within its Information Technology Division, the Commonwealth is well prepared for the change in the millennium on January 1, 2000. This effort demonstrated that many of these compliance changes were just patches and continued investment will always be needed.

I express my thanks and appreciation to the many dedicated people in the Office of the Comptroller who have supported me so strongly for the past nine months. You have made FY99 a successful year. I am grateful to Governor Cellucci and Lieutenant Governor Swift for the trust they have placed in me. We will continue to put forward our best efforts so that this trust is well founded.

I wish to conclude by dedicating this report to William Kilmartin, who served as Comptroller from 1988 through 1998. Bill's leadership in the areas of financial management and technology over these past ten years has brought fundamental changes to the Commonwealth that will bring continued benefits for years to come. Bill's personal integrity and dedication to public service serve as a model to which all public servants can aspire. His friendship, professional advice and guidance were instrumental in preparing me to step forward in the role of Comptroller.

Respectfully submitted,

Martin J. Benison
Comptroller